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Hot News

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China's Mobile Phone Cyber Game Market: Warfare Comes Earlier

Selina Yang, Zero2IPO Capital

The mobile phone cyber game, known as a killer-grade mobile phone data application, has achieved the initial success at home and abroad. The mobile phone cyber game industry has stepped into a new epoch in history, after the issuance of 3G licenses. The industry insiders exclaimed 2009 is the true "first year of mobile phone cyber games" in China.

Mobile phone games, based on mobile devices, can be divided into single-player games and online games according to whether they need the support of the wireless network. The mobile phone cyber game refers to the mobile phone game based on mobile phones, PDAs or other terminals that needs the access to the wireless Internet and supports concurrent online interaction of multiple players. The mobile phone cyber games can be categorized into WAP games and client games based on how it is realized. It can also be classified into the MMORPG games and recreation games in terms of the game type.

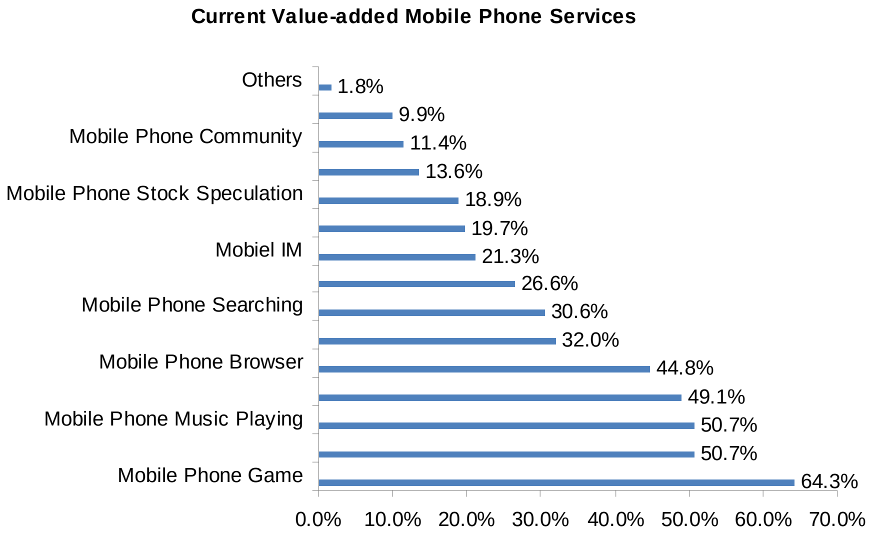
According to a forecast, China's mobile phone game market will reach a size of RMB4.21B in 2011, representing a CAGR of 45.54% since 2008. Such a high CAGR chiefly comes from the growing user demand for recreation & entertainment applications, the commercial use of the 3G networks, the rapid expansion of the mobile phone cyber game market and other factors. (See Chart 1)

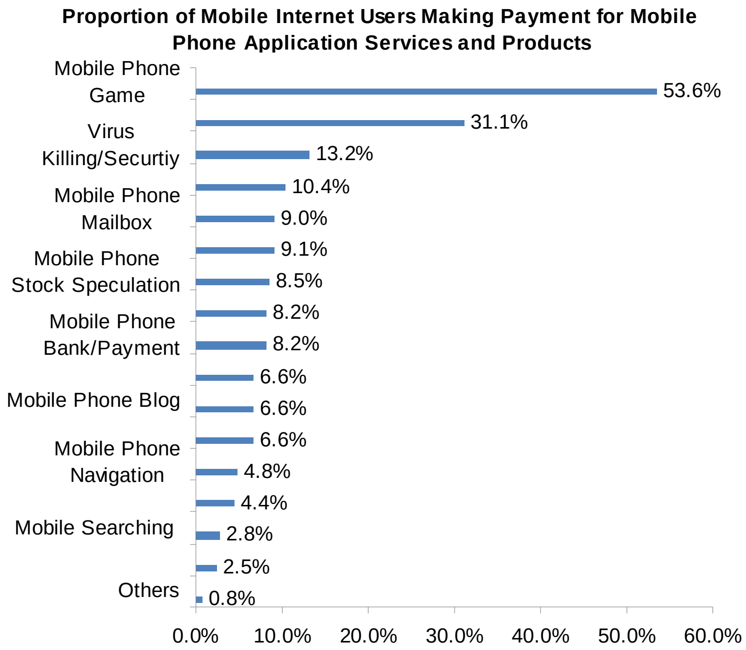
The mobile phone game user base still remains very small, compared to the number of mobile phone users, which topped 700 million in 2009 and crowned China to be the country with the biggest population living a mobile life. In comparison, however, the mobile phone games rank atop all the existing mobile phone application services or products, with a share of up to 64.3%, followed by mobile IM and mobile phone music. Among the mobile phone application services or products for which the mobile Internet

Chart 1 Current Scale of Chinese Mobile Phone Cyber Market and Outlook

Source: Enfodesk

Chart 2 Proportion of Mobile Internet Users Making Payment for Mobile Phone Application Services and Products





Source: Enfodesk

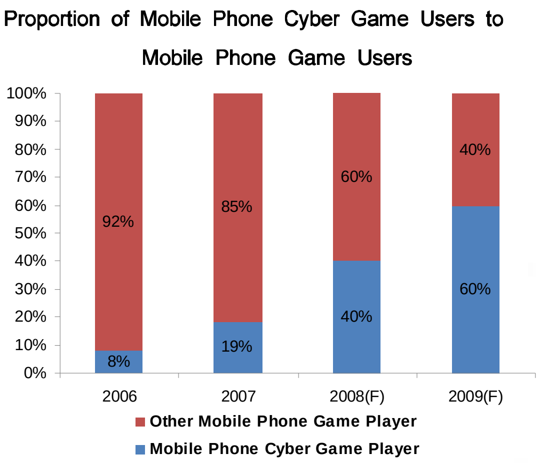
users have paid, the mobile phone game comes first with an overwhelming advantage. More than half of the mobile Internet users have paid for mobile phone game products. (See Chart 2)

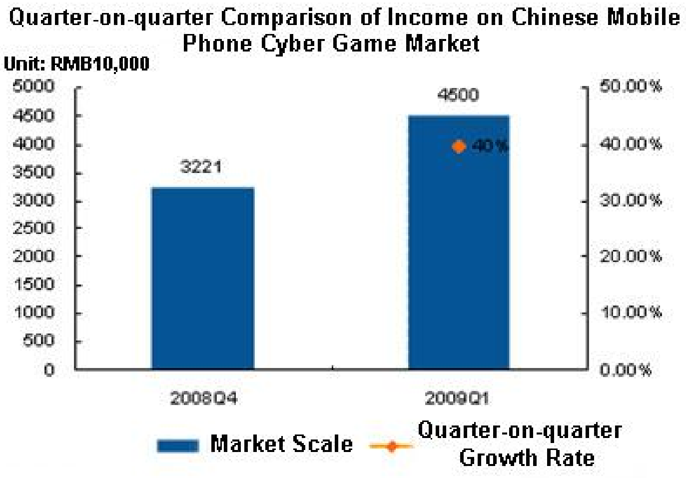
The mobile phone game market is very vast, and the proportion of the mobile phone cyber game users has been also growing year by year. As shown in Chart 2, the mobile phone cyber game users, about 2.80 million, accounted for about 40% of the overall mobile phone game user base, and most of these users were active users of mobile phone single-player games. Compared to the previous quarter, the cyber game income jumped 40% to RMB45.00M in the first quarter of 2009, mainly a result of the increased ARPU value.

Even so, the mobile phone cyber game still stays at the fledging stage, and has not arrived at the stage that many people will play it freely whenever they have a little free time. At present, most mobile phone cyber game users stay online for some four hours per day, which is a whole block of time, so the market will still need further cultivation. The current trend of the mobile phone cyber game market is that the warfare has come ahead of time: the user base is not very large, but the threshold has been lifted, evidenced by the high input and more attention to the terminal performance.

It is worth noticing that the MMORPG games take a major proportion. With rich story scenarios, these games attract a large number of high-end users, produce a higher yield, have no restriction on the timing of introduction, and enjoy a large room for market expansion. However, they also face the challenges of shorter lifecycle and greater risks. Comparatively, the recreation games have the obvious advantages: simple operation, sheer entertainment, bigger user base and longer lifecycle. However, the fierce competition in the chess & card recreation cyber game market indicates that it can accommodate only 2-3 game

Chart 3 Proportion of Mobile Internet Users Making Payment for Mobile Phone Application Services and Products





Source: Enfodesk

vendors to share the pie. Besides chess & card recreation cyber games, there are also other types of recreation cyber games, such as music and shooting.

The industrial chain of China's mobile phone cyber game market has its own features. To date, the mobile phone single-player games have evolved to the stage of product homogeneity, so it has become necessary to enhance the awareness and penetration rate of the games through popular contents and familiar stories. However, mobile phone cyber games seldom directly use the contents that have been published. Therefore, it still needs money and energy to promote products. In addition, the mobile phone cyber game pays more attention to how to deliver game services to end users more effectively. To this end, the game promotion platform and channels are of more importance. At present, mobile phone cyber game vendors, in most cases, choose to cooperate with terminal manufacturers so as to increase the selling points of terminals, and bring the mobile phone cyber games to users in a more effective manner. Of course, the mobile carriers are still the dominant force in the industrial chain of the mobile cyber games. This is because the network environment and traffic rate constitute the major factors that hinder the development of cyber games, while the mobile carrier has the rich user resources and is the born proxy to collect fees. ■

Table 1 List of Some Mobile Phone Game Companies Completing Financing in 2009

Investee	Investor	Time	Total Investment Amt.（US$M）	Round
Soco Soft	Green Pine Capital Partners	November 2009	2.93	A
3guu.com	CMHJ Partners and Ventech	October 2009	3	A
Pearl-in-Palm Information Technology	China Broadband Capital, DT Capital Partners and Asian Groove	September 2009	Undisclosed	B
Showina	Yonghui Ruijin Venture Capital Investment	August 21, 2009	0.29	
NetVillage	Innobridge	July 2009	Undisclosed	A
798Game	IDGVC and Infiniti Capital	May 18, 2009	20	A
WiSTONE		April 2009	>10	A

Source: Zero2IPO Database

CVCF 2010 @ Silicon Valley
Zero2IPO-China Venture Capital & Private Equity Forum

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CVCF SV

The 5th China Venture Capital & Private Equity Forum @ Silicon Valley

第五届中国创业投资暨私募股权投资硅谷论坛 2010

Date: May 4th, 2010
Venue: Crowne Plaza Hotel, Palo Alto, Silicon Valley, U.S.

Keynote Speakers:

Michael Moritz
Sequoia Capital
Partner

Jim Breyer
Accel Partners
Partner

Tim Draper
Draper Fisher Jurvetson
Managing Director

Hugo Shong
IDG Capital Partners
Founding General Partner

Dixon Doll
DCM
Co-founder
and General Partner

Gavin Ni
Zero2IPO Group
Founder, CEO & President

The 5th China Venture Capital & Private Equity Forum @ Silicon Valley 2010

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Silver Lake Makes Minority Investment in Spreadtrum Communications

Mar.26 2010, Zero2IPO News

Spreadtrum Communications, Inc. (Nasdaq: SPRD; "Spreadtrum"), one of China's leading fabless semiconductor providers supporting both 2G and 3G wireless communications standards, and Silver Lake, one of the world's preeminent technology investors, today jointly announced that Silver Lake has acquired a minority stake in the Shanghai-based company.

Spreadtrum Communications is a fabless semiconductor company that develops baseband and RF processor solutions for the wireless communications market. Spreadtrum combines its semiconductor design expertise with its software development capabilities to deliver highly-integrated baseband processors with multimedia functionality and power management. Spreadtrum

has developed its solutions based on an open development platform, enabling its customers to develop customized wireless products that are feature-rich to meet their cost and time-to-market requirements.

Shanghai Pudong New Area Initiates QFLP System with Cap of less than US$100M for Foreign Exchange Conversion

Mar. 24, 2010, 21st Century Business Herald, Chen Zhi

An insider disclosed that a document on the Trial Plan for the Participation of Foreign Investment into RMB Equity Investment Funds (Trial Plan) has been approved by the executive meeting of the Shanghai municipal government last week after many negotiations with national departments like the SAFE. The Trial Plan is planned to be released in April and firstly implemented in Pudong New Area.

It is said that the Trial Plan will make reference from QFII mode, and allow international LPs to invest in Chinese equity investment funds by establishing similar QFLP system in accordance with the cap approved by the State Administration of Foreign Exchange. However, the Trial Plan is applicable only to foreign-invested RMB funds founded in Pudong New Area. The fund management company shall

be founded in Shanghai. In addition, the aggregate quota for foreign exchange convertible into RMB shall not exceed 50% of the size of the fund, and the quota for a GP shall not exceed 5% of the fund size. "In the initial period of implementation, the aggregate quota for foreign exchange convertible into RMB shall not exceed US$100M for each foreign-invested RMB fund", this insider emphasized. What's more, the foreign-invested RMB funds introduced through QFLP system will still be treated as "foreign investment institutions", and therefore have to follow the relevant laws and regulations governing foreign-invested enterprises.

Warburg Pincus Leads Third-round Investment to DHgate.com with RMB200M

Mar.24, 2010, Zero2IPO News

Warburg Pincus ("WP"), a leading PE investor, made a joint announcement with DHgate.com on Mar. 24 that the two sides had signed an agreement on long-term strategic cooperation. DHgate.com has received about RMB200M in a third-round investment led by WP. The other two investors, KPCB China and JAFCO Asia, also participated the previous two rounds of investment.

Wang Shutong, founder and CEO of DHgate.com, said that an explosive growth of online foreign trade market is just at the door now. It is estimated that the turnover of the foreign trade online will reach RMB10B in 2010. The figure may surge to US $10B in the coming three years.

DHgate.com had completed two rounds of investment with investors including some globally recognized institutions, such as KPCB China and JAFCO Asia. The investment from WP plus the funds received in the previous two rounds totals nearly RMB300M. After this round of financing, DHgate.com plans to strengthen its leading

position on the market by realizing large-scale growth of buyers and sellers, enhancing customer experience and launching customized value-added services.

CCB International Plans A RMB10B Green Industry Fund in Shanghai

Mar. 24, 2010, The Economic Observer, Hu Zhongbin

Hu Zhanghong, CEO of CCB International, announced that CCB International plans to found a green industry fund sized at RMB10B in Shanghai recently.

Xu Xiaolin, managing director of CCB International Wealth Management Ltd., also said openly that Shanghai Chengtou Holding Co., Ltd. under Shanghai Municipal government would participate in the operation of this fund. However, no details were revealed.

In fact, CCB International has been expanding its presence in the PE field with the support of a huge CCB network. Last April, the "Medical Industry Fund" launched by CCB International became the first of its kind recorded at the State Development and Reform Commission (SDRC). Meanwhile, the preparation for several other

International has invested in several important projects, such as Peak and Wanda projects.

China Merchants China Direct Investments Limited Invests in China Credit Trust

Mar. 24, 2010, Zero2IPO News

China Merchants China Direct Investments Limited (the "Company") announces that Shenzhen Tian Zheng Investment Co., Ltd., ("Tian

Zheng"), a wholly-owned subsidiary of the Company, has made a capital injection of RMB240,151,528 (equivalent to approximately US $35,180,000) into China Credit Trust Co., Ltd. ("CCT"), in proportion to the Company's shareholding in CCT (the "Capital Increase"). Upon completion of the Capital Increase, the Company and Tian Zheng together will hold no less than its original 6.8167% interest in CCT. The com-